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UNCLAS SECTION 01 OF 02 DAKAR 001431

SENSITIVE

SIPDIS

DEPARTMENT FOR EEB/EPPD, AF/W AND AF/EP
TREASURY FOR RHALL, DPETERS, GCHRISTOPOLUS
ABU DHABI FOR OTA/GRIFFERTY

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [EINV](#) [ETRD](#) [SG](#)

SUBJECT: SENEGAL'S LATEST TREASURY BONDS; A CREATIVE APPROACH

REF: A) Dakar 1298, B) Dakar 0813

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¶1. (SBU) SUMMARY: In early December, Senegal launched a USD 40 million treasury bond offering as one part of the government's plan to pay off the debt it owes to private sector contractors. In marketing the bonds, the regional central bank and the Ministry of Finance reportedly promised subscribing banks that their client companies to whom the government owes money will be paid on a priority basis, allowing those companies to pay back debts owed to the banks. Hopefully, this arrangement will not only contribute to diminishing the GOS's budget deficit, but will also add some much-needed liquidity to Senegal's banking sector. END SUMMARY.

¶2. (U) In an effort to honor its commitment to pay its internal debt by January 2009 (Ref A), on December 3, Senegal launched a CFA 20 billion (USD 40 million) short-term treasury bond offering through the WAEMU/UEMOA regional central bank (BCEAO). The bonds' face value is USD 2,000. They are to be sold under the "Dutch Auction" system to determine the payable interest, which is expected to average six percent, payable in advance, and exempted from taxes.

¶3. (U) The main target for the bonds are local commercial banks. Insurance companies and other financial institutions that maintain current accounts at the BCEAO, as well as intermediate banks located within the WAEMU region can also purchase the bonds.

CREATIVE MARKETING

¶4. (SBU) There was wide-spread initial skepticism that this

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issuance would succeed, particularly given the current lack of local liquidity and after Senegal's previous treasury bond issuance in June was under-subscribed (Ref B). However, our contacts believe this latest offer, which is significantly smaller, will be fully subscribed or better due mostly to creative marketing by Senegal's Ministry of Finance and the BCEAO. According to banking sources, the BCEAO polled local banks on the credit they have outstanding (and likely overdue) from private clients who are suffering from the large stock of official arrears. These banks were pushed to purchase bonds equal to the amount these companies owe, with the promise that the Treasury will pay those companies first from the bond proceeds, allowing the companies in return to repay their outstanding debts to the local banks. In theory, this approach should create some much needed liquidity in the commercial banking sector in the coming months.

¶5. (U) Though the bond issuance reflects only a small portion of the government's current arrears to the private sector, which is estimated to be USD 350 million at a minimum, it is part of the MinFin's action plan to close the current budget deficit as required under the country's Policy Support Instrument (PSI) agreement with the IMF. The government is continuing to look for other sources of financing in order to pay off its arrears to the private sector by the end of January 2009 as promised by President Wade and Finance Minister Diop.

¶6. (SBU) Ministry of Finance contacts confirm that they hope to gain BCEAO and IMF approval for a similar issuance before the end of January 2009. The approval for such action will depend in part on the treasury bonds being planned by other WAEMU member states, and also the recommendations of the IMF Board's second review of Senegal's PSI.

BERNICAT